

# **Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on the Richmond Municipality**

## **Report on the audit of the financial statements**

### **Qualified opinion**

1. I have audited the financial statements of the Richmond Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Richmond Municipality as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standard of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2018 (Act No. 1 of 2018) (Dora).

### **Basis for qualified opinion**

#### **Payables from exchange transactions**

3. Included in payables from exchange transactions is trade payables and retentions of R10,16 million and R4,91 million respectively. Retentions were not reduced for payments made during the year and outstanding invoices for goods and services received before year end were not recorded as required by SA Standard of GRAP 1, *Presentation of financial statements*. In addition, I was unable to obtain sufficient appropriate audit evidence that trade payables had been properly accounted for, due to the status of the accounting records. The financial statements amount for trade payables did not agree to the general ledger and the creditors age analysis. I was unable to confirm the recorded liability by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to trade payables and retentions stated at R10,16 million and R4,91 million in note 13 to the financial statements.

#### **Payables from non-exchange transactions**

4. I was unable to obtain sufficient appropriate audit evidence for payables from non-exchange transactions due to the status of the accounting records. The financial statements amount for payments received in advance did not agree to the general ledger. I was unable to confirm the recorded liability by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to payables from non-exchange transactions stated at R2,70 million in note 14 to the financial statements.

## **Property rates and receivables**

5. During 2018, the municipality did not account for revenue from non-exchange transactions in accordance with SA Standard of GRAP 23, *Revenue from non-exchange transactions*. Revenue from property rates was not accounted for at the fair value of the consideration received or receivables, as required by this standard. Property rates were calculated based on incorrect tariffs. Consequently, property rates and receivables stated at R14,01 million and R13,10 million in note 24 and note 5 to the financial statements, respectively were misstated by an unknown amount. My opinion on the current year's financial statements was also modified because of the possible effect of this matter on the comparability of the property rates revenue and receivables from non-exchange transactions for the current period. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

## **Unspent conditional grants and receipts**

6. The municipality did not properly recognise unspent conditional grants and receipts as required by GRAP 1, *Presentation of financial statements*. Unspent conditional grants and receipts were reduced by retention amounts withheld in prior years when payments were made in the current year. I was unable to determine the full extent of this misstatement as it was impracticable to do so. Consequently, I was unable to determine whether any further adjustment was necessary to unspent conditional grants and receipts stated at R7,71 million (2018: R4,27 million) in note 15 to the financial statements.

## **Commitments**

7. The municipality did not fully disclose capital commitments in accordance with SA Standard of GRAP 17, *Property, plant and equipment*. This was due to inadequate system and process controls. I was unable to determine the full extent of this misstatement as it was impracticable to do so. Consequently, I was unable to determine whether any further adjustments were necessary to capital commitments stated at R34,96 million (2018: R52,78 million) in note 38 to the financial statements.

## **Context for the opinion**

8. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
9. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
10. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## **Emphasis of matter**

11. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### **Material impairments – trade and other receivables**

12. As disclosed in note 31 to the financial statements, material impairments of R7,80 million were incurred as a result of irrecoverable trade debtors.

## **Other matter**

13. I draw attention to the matter below.

### **Unaudited disclosure notes**

14. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

## **Responsibilities of the accounting officer for the financial statements**

15. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

16. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

## **Auditor-general's responsibilities for the audit of the financial statements**

17. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

18. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

## **Report on the audit of the annual performance report**

### **Introduction and scope**

19. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priority presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
20. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
21. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the service delivery development priority presented in the annual performance report of the municipality for the year ended 30 June 2019. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
22. The material findings in respect of the usefulness and reliability of the selected development priority are as follows:

#### **Development priority – service delivery**

##### **Repair of Pothole on Black-Top Roads**

23. I was unable to obtain sufficient appropriate audit evidence to support the reported achievement of 269 tons. This was due to a lack of technical indicator descriptions, proper performance management systems and formal standard operating procedures or documented systems descriptions that predetermined how the achievement would be measured, monitored and reported. I was unable to confirm the reported achievement of the indicator by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of 269 as reported in the annual performance report.

##### **Various indicators**

24. I was unable to obtain sufficient appropriate audit evidence for the related measures taken to improve performance as reported in the annual performance report. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance for the indicators listed below:

<b>Indicator</b>	<b>Planned target</b>	<b>Reported achievement in the annual performance report</b>	<b>Corrective measure</b>
Completion of Sports Complex	1	0	Acceleration programme is necessary to fast-track the implementation of this project towards completion
To energise 168 Connections to households(KaGinqitshe, Amandus, Mapipana, KwaBontshisi, kwaMahlakaza, Indlozana, Aden & Mid-Ilovo Electrification - Ward 4 )	168	0	In future, municipality to ensure that all infrastructure capital projects are placed and managed at relevant department.
To energise 165 Connections to households(Mzinolovu, Magwababeni, koSithole, koSotobe Electrification - Ward 1)	165	0	In future, municipality to ensure that all infrastructure capital projects are placed and managed at relevant department
To energise 420 Connections to households(Dumamanzi, Phatheni, Mgxobeleni Electrification - Ward 6)	420	0	In future, municipality to ensure that all infrastructure capital projects are placed and managed at relevant department.
Construction of concrete walk-way in ward 1 (0.5KM)	0.5	0	municipality must not deviate from the projects as set out and contained in the SDBIP
Completion of 4km gravel road maintained ( ward 1)	4	2	Municipality to repair all breakdown fleet and consider disposal of old plant & fleet
Completion of 4km gravel road maintained ( ward 3)	4	2.7	Municipality to repair all breakdown fleet and consider disposal of old plant & fleet
Completion of 4km gravel road maintained ( ward 4)	4	1.5	Municipality to repair all breakdown fleet and consider disposal of old plant & fleet
Completion of 4km gravel road maintained ( ward 7)	4	3.4	Municipality to repair all breakdown fleet and consider disposal of old plant & fleet

## **Other matters**

25. I draw attention to the matters below.

## Achievement of planned targets

26. The annual performance report on pages xx to xx sets out information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 24 to 25 of this report.

## Adjustment of material misstatements

27. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of the service delivery development priority. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

## Report on the audit of compliance with legislation

### Introduction and scope

28. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

29. The material findings on compliance with specific matters in key legislation are as follows:

### Annual financial statements

30. The annual financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current assets, current liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records provided, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

### Expenditure management

31. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R7,38 million, as disclosed in note 39 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

32. Reasonable steps were not taken to prevent irregular expenditure amounting to R23,78 million as disclosed in note 40 to the annual financial statements, as required by section 62(1)(d) of the MFMA.

33. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R122 207, as disclosed in note 41 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

## **Procurement and contract management**

34. Bid documentation for the procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content, as required by the preferential procurement regulation 8(2) of 2017.
35. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5.

## **Conditional grants**

36. The Municipal Infrastructure Grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of Dora.
37. The Integrated National Electrification Programme grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of Dora.

## **Consequence management**

38. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
39. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

## **Other information**

40. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and the selected development priority presented in the annual performance report that has been specifically reported in this auditor's report.
41. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
42. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priority presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
43. If based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact. I have nothing to report in this regard.

## **Internal control deficiencies**

44. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
45. Leadership did not ensure that adequate measures were taken to ensure credible and reliable financial and performance reporting as well as compliance with applicable laws and regulations.
46. Senior management did not implement proper record keeping to ensure that financial and performance reports were adequately supported. Additionally, measures implemented to review and monitor compliance with applicable laws and regulations were inadequate resulting in material findings.

## **Other reports**

47. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
48. The Department of Cooperative Governance and Traditional Affairs is investigating grant spending for the 2017-18 financial period on behalf of the municipality. The investigation is still in progress at the date of signing my report.

*Auditor - General*

Pietermaritzburg

31 January 2020



*Auditing to build public confidence*

## **Annexure – Auditor-general’s responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for the selected development priority and on the municipality's compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
  - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease continuing as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

